

Message Text

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41

ACTION TRSE-00

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FM AMEMBASSY ROME

TO NAVSUPPACT NAPLES PRIORITY

INFO SECSTATE WASHDC PRIORITY 1094

RFC PARIS 8274

CINCUSNAVEUR LONDON

USCINCEUR VAIHINGEN

CINCUSAFE RAMSTEIN

CINCUSAREUR HEIDELBERG

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E.O. 11652: N/A

TAGS: EFIN AFIN IT

SUBJECT: EXCHANGE RATE FOR PURCHASE OF LIRE BY USG

NAVSUPPACT LIRA PURCHASE PROPOSAL

PASS TREASURY AND DEFENSE

REF: (A) 122042Z SEP 73; (B) ROME 9834; (C) 241640Z SEP 73

1. IN RESPONSE TO REQUEST (REF A) BY NAVSUPPACT NAPLES TO RECONSIDER PROPOSAL FOR LIRA PURCHASES DESCRIBED REF C, MISSION CONTINUES TO CONSIDER PROPOSAL INAPPROPRIATE. PROPOSAL CALLS FOR PURCHASE OF LIRE FROM UNION BANK OF SWITZERLAND WITH DOLLAR CHECK PAID IN MILAN IN RETURN FOR LIRA CHECK AT EXCHANGE RATE OF 601 LIRE PER DOLLAR. CRUCIAL ELEMENTS OF PROPOSAL ARE THAT TRANSACTION WOULD TAKE PLACE INSIDE ITALY WHERE ITALIAN EXCHANGE CONTROLS APPLY; PURCHASE WOULD NOT BE FROM AUTHORIZED BANK OR EXCHANGE DEALER; AND EXCHANGE RATE WOULD BE WELL IN EXCESS OF ANY PRESENT LEGAL RATE (E.G. COMMERCIAL RATE OF 564 AND FINANCIAL AND BANKNOTE RATES OF 589).

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UNDER THESE CONDITIONS TRANSACTION IS AT LEAST HIGHLY

SUSPECT AND QUITE PROBABLY ILLEGAL.

2. IN ORDER TO VERIFY WHETHER LIRE COULD ALSO BE PURCHASED AT 610 RATE OUTSIDE ITALY REGIONAL FINANCE OFFICE, PARIS, CHECKED WITH UNION BANK HEADQUARTERS. (UNION BANK HAS NO OFFICIAL REPRESENTATIVE IN MILAN, SO SOME INTER-MEDIARY MUST BE INVOLVED IN NAPLES PROPOSAL.) TALK REVEALED THAT BANK WOULD ONLY SELL LIRE FOR DOLLARS TO RFC AT 610 RATE IN FORM OF LIRA BANKNOTES FOR DELIVERY IN SWITZERLAND, AFTER WHICH USG WOULD BE RESPONSIBLE FOR BRINGING THEM INTO ITALY. BANK OPENLY ACKNOWLEDGED THAT SUCH LIRA WOULD COME FROM BLACK MARKET.

3. OUR OBJECTION TO SPECIFIC PROPOSAL DOES NOT IMPLY THAT WE DO NOT APPRECIATE EFFORTS OF NAPLES TO SECURE MORE FAVORABLE RATE OF EXCHANGE FOR NAVY. WE HAVE IN FACT URGED MILITARY FINANCE OFFICERS TO SECURE MOST FAVORABLE, "LEGAL" RATE OBTAINABLE DURING PRESENT INTERIM PERIOD. HOWEVER, WE OPPOSE PRESENT NAVSUPPACT SCHEME FOR TWO REASONS. FIRST, CIRCUMVENTION OF ITALIAN EXCHANGE CONTROLS IS INCONSISTENT WITH OVERALL GOOD USG RELATIONS WITH GOI. DURING RECENT MONTHS WE HAVE KEPT BANK OF ITALY AND GOI GENERALLY INFORMED OF METHODS WE ARE USING TO PURCHASE LIRE PENDING AGREEMENT TO AMEND TASCA AGREEMENT PROCEDURES AND HAVE ASSURED OFFICIALS THAT WE ARE ATTEMPTING TO KEEP OPERATIONS ENTIRELY ABOVE BOARD. SECOND, WE ARE CONCERNED THAT NAPLES' PROPOSAL MIGHT JEOPARDIZE DELICATE NEGOTIATIONS WITH ITALIAN MONETARY AUTHORITIES AIMED AT ESTABLISHING SPECIAL REGIME WITHIN TASCA AGREEMENT FRAMEWORK IN ORDER TO PROVIDE US WITH MORE FAVORABLE RATE OF EXCHANGE IN ITALY FOR ALL USG CIVILIAN AND MILITARY EXPENDITURES. WE ARE REASONABLY OPTIMISTIC THAT SUCCESSFUL CONCLUSION OF THESE DISCUSSIONS WILL SHORTLY BE REACHED. (SEE REF B FOR DESCRIPTION OF BASIC PROPOSAL). WHILE SAVINGS FOR NAVY ARISING FROM NAVSUPPACT PROCEDURE MAY TOTAL SOME \$40,000 THIS MUST BE WEIGHED AGAINST POSSIBLE OVERALL SAVINGS TO USG OF SEVERAL MILLION DOLLARS RESULTING FROM MISSION'S PROPOSED PROCEDURE AND AGAINST ADVERSE POLITICAL EFFECT ON USG/GOI RELATIONS. BEAUDRY

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